

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 PA-02 PRS-01 USIA-15 CIAE-00 INR-07

NSAE-00 EB-07 SIL-01 LAB-04 COME-00 HUD-02 /052 W

----- 073352

P R 131150Z JAN 76

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC PRIORITY 2045

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

UNCLAS COPENHAGEN 0117

E.O. 11652: N/A

TAGS: ELAB, XG, DA

SUBJECT: REQUEST FOR INFORMATION ON THE CONSTRUCTION INDUSTRY

REF: STATE 301380

1. THE DANISH CONSTRUCTION INDUSTRY UNTIL MID-1974 WORKED ABOVE CAPACITY WITH RESULTANT WAGE AND COST RISES WHICH CONTRIBUTED MUCH TO THE GENERAL RATE OF INFLATION. DURING THAT PERIOD, THEREFORE, ANTI-CYCLICAL GOVERNMENT MEASURES TOOK THE FORM OF INTERMITTENT RESTRICTIONS ON CONSTRUCTION STARTS, PARTICULARLY DURING THE SUMMER SEASON WHEN OVER-HEATING WAS MOST PRONOUNCED. THESE RESTRICTIONS FREQUENTLY PRODUCED STOP-AND-GO CYCLES DETRIMENTAL TO LONG-TERM STABILITY OF THE INDUSTRY. SEASONAL UNEMPLOYMENT PROBLEMS, HISTORICALLY KNOWN ALSO IN DENMARK, HAVE NOT BEEN OF ANY SIGNIFICANCE DURING THE PERIOD OF HIGH CONSTRUCTION ACTIVITY.

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GOVERNMENT ACTIVITY IN THIS AREA, THEREFORE, HAS BEEN

LIMITED TO EASING OF RESTRICTIONS DURING WINTER. GOVERNMENT AGENCIES PROVIDE BUILDING INFORMATION SERVICES ALSO WITH REGARD TO WINTER CONSTRUCTION. IT IS BELIEVED, HOWEVER, THAT THE STRONG REDUCTION OF THE SEASONAL FLUX IN CONSTRUCTION HAS RESULTED FROM THE HIGH LEVEL OF ACTIVITY RATHER THAN FROM ANY MEASURES DIRECTED AGAINST SEASONAL LOWS.

2. CONCOMITANT WITH THE GENERAL RECESSION OF THE ECONOMY IN 1974, THERE WAS A PARTICULARLY SHARP DECLINE IN CONSTRUCTION. THIS DECLINE CONTINUED IN 1975. DURING THAT YEAR, THE GOVERNMENT GRANTED SUBSIDIES FOR RESIDENTIAL REPAIRS AND IMPROVEMENTS WITH PARTICULAR EMPHASIS UPON ENERGY (HEAT) SAVING DEVICES. WHILE MARKET FACTORS BROUGHT THE INTEREST LEVEL DOWN, THE GOVERNMENT INTERVENED BY EASING MORTGAGE CREDIT LIMITATIONS AND TERMS. THE EASIER MONEY TERMS, COMBINED WITH A SHARP REDUCTION IN THE MARKET COST RISE, SUCCEEDED IN TURNING THE HOUSING MARKET UPWARD AGAIN. THERE WAS NOT, HOWEVER, ANY SEASONAL ASPECT TO ANY OF THESE MEASURES. IN ORDER TO STIMULATE INDUSTRIAL INVESTMENT, TAX DEPRECIATION RULES WERE LIBERALIZED, BUT THIS HAS NOT YET AFFECTED THE RATE OF INVESTMENT SIGNIFICANTLY.

3. THE GOVERNMENT HAS A FIRM HOLD ON CONSTRUCTION IN THE PUBLIC SECTOR, DIRECTLY THROUGH ITS OWN APPROPRIATIONS AND PROJECT APPROVALS, AND INDIRECTLY THROUGH THE REGULATION OF THE SIGNIFICANT SUBSIDIES OF LOCAL GOVERNMENT CONSTRUCTION. IN ADDITION, DIRECT EMBARGOS ON LOCAL GOVERNMENT CONSTRUCTION HAVE FREQUENTLY BEEN APPLIED. WHILE HOMEBUILDING PERMITS ARE GENERALLY GRANTED AUTOMATICALLY ON TECHNICAL CRITERIA ONLY, PERMIT QUOTAS ON A LOCATION BASIS HAVE BEEN APPLIED DURING PERIODS OF EXTREME OVER-ACTIVITY. IN ADDITION, THE DANISH LABOR MINISTRY HAS AN ANNUAL APPROPRIATION FOR NON-BUILDING CONSTRUCTION FOR EMPLOYMENT PURPOSES, BUT IT IS COMPARATIVELY SMALL (ABOUT \$4.3 MILLION IN FY 75/76) AND IS USED PRIMARILY IN TRADITIONAL LOW-EMPLOYMENT AREAS. THERE ARE NOT DIRECT CONSTRUCTION SUBSIDIES TO PRIVATE INDUSTRY. GOVERNMENT GUARANTEES

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ARE ISSUED FOR LOANS TO NON-PROFIT HOUSING BUT THIS SECTOR HAS RECENTLY NOT BEEN ABLE TO UTILIZE THE ANNUAL QUOTAS FULLY, BECAUSE THE MARKET HAS SHOWN PREFERENCE FOR NON-SUPPORTED ONE-FAMILY UNITS.

4. WITH REGARD TO THE SPECIFIC STATISTICAL DATA REQUESTED IN REFTTEL PARA III, VERY LITTLE MATERIAL IS AVAILABLE. ATTEMPTS HAVE BEEN MADE TO MEASURE LABOR

PRODUCTIVITY IN SIMPLE TERMS OF MAN-HOURS TO AREA RATION BUT THE DANISH LABOR MINISTRY DOES NOT CONSIDER THE RESULTS VALID. WITH REGARD TO CAPITAL/MATERIALS PRODUCTIVITY, THE MINISTRY DOES NOT GET DATA FROM INDUSTRY PERMITTING SUCH COMPUTATION. THE MOST RECENT MEASURES TO BRING CONSTRUCTION OUT OF THE SLUMP WERE AIMED AT REDUCING UNEMPLOYMENT BY SOME 10,000 (FROM A TOTAL LEVEL OF 120,000). THE MINISTRY CONCEDES, HOWEVER, THAT THIS ESTIMATE WAS RATHER UNCERTAIN AND ALSO INCLUDED EMPLOYMENT IN MANUFACTURING INDUSTRIES PRODUCING COMPONENTS AND MATERIALS FOR CONSTRUCTION. BECAUSE OF THE UNCERTAINTY OF THIS ESTIMATE AND BECAUSE ONLY A SMALL PART OF THE CONSTRUCTION INCENTIVES CARRIED DIRECT COSTS TO THE GOVERNMENT, ANY COMPARISON WITH BENEFIT SAVINGS IS INVALID. FINALLY, AS MENTIONED, TAX INCENTIVES APPLIED WERE AIMED AT COUNTER-CYCLICAL, NOT COUNTER-SEASONAL ACTIVITY, AND THEIR RESULTS CANNOT YET BE MEASURED.

5. WE ARE IN CONTACT WITH THE DANISH HOUSING AND LABOR MINISTRIES AND WILL SUBMIT A MORE DETAILED REPORT BY AIRGRAM IN ACCORDANCE WITH THE FEBRUARY 15 DEADLINE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION INDUSTRY, INDUSTRIAL OUTLOOK REPORT
Control Number: n/a
Copy: SINGLE
Draft Date: 13 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976COPENH00117
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760012-0064
From: COPENHAGEN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760163/aaaacecw.tel
Line Count: 138
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 STATE 301380
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 26 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 MAY 2004 by barnescd>; APPROVED <06 DEC 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REQUEST FOR INFORMATION ON THE CONSTRUCTION INDUSTRY
TAGS: ELAB, XG, DA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006